GfK
Growth from Knowledge

China Home Appliances Industry White Paper 2021

If you know how the digital and intelligence transformation is revolutionizing business, you can win the future

Growth from Knowledge

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Transforming to win the future

The retail industry aims to meet the ever-changing consumer needs by improving efficiency and lowering costs. From the rise of home appliances export, and the e-commerce boom that led to significant developments in the sector, to the rapid maturation of e-commerce during the pandemic, innovation in retail sector has been aconstant and the nature of the industry remains unchanged.

Traditional retail models can no longer keep up with consumers' needs, especially with the Gen Z coming of age. This generation of consumers welcomes a more rapid retail transformation, which is driving consumer technology industries towards digital transformation in the era of intelligence, big data and cloud services.

Accurate understanding of consumer needs and optimizing experiences are the expectations of today's consumers.

A GfK study revealed that cost saving is the most important reason why consumers prefer to shop online, followed by convenience; whereas the top attraction of shopping in physical stores is the experience and having instant access to the purchased products-an aspect which is more highly valued for domestic consumers. The unique advantages offered by each reason helps consumers decide whether to do their shopping online or offline.

Reasons for online and offline purchase

Offline purchase

	Global	China
Experience before purchase	33%	28%
Faster access to product	32%	36%
Fast shopping	25%	26%
Cost saving	24%	23%
Convenient way of shopping	24%	23%

Online purchase

	Global	China
Cost saving	43%	45%
Convenient way of shopping	33%	32%
Fast shopping	30%	31%
More options	22%	16%
More delivery options	21%	19%

The pandemic presented rare window of opportunity for retail innovation

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In a surplus market, retail efficiency can only be improved through refining operations

Retail innovation is imminent in order for players to compete in times of market surplus

The introduction of various home appliances related policies in China benefited consumers since 2009 and has fueled the sector's development from a growing to a surplus market; propelling penetration rate of home appliance to a high level. The China Statistical Yearbook 2020 by the National Bureau of Statistics reported the average number of washing machines owned by every hundred households at the end of 2019 was 96, and the average number for refrigerators (freezers), air conditioners and colour TVs every hundred household owned exceeded 100, at 100.9, 115.6, and 120.6 respectively.

Demand for new appliances has been low in such a highly penetrated market. Competition is intensified and the maturity of the market presents new challenges for manufacturers and retailers. Retail channels ranging from traditional distributors to popular online platforms have all found it challenging to stimulate new demand. The call for innovation is upon the retail industry. After the 2020 pandemic, retailers have connected the online and offline markets, fragmented and decentralised manufacturer channels, leading the industry to a new direction of retail without boundaries.

The pandemic has impacted the domestic market significantly and increased uncertainties in the home appliances retail industry.

The pandemic increased market uncertainties, reduced channel and brand preferences, and brought a rare innovation window for retail reform

Domestic brands are becoming popular

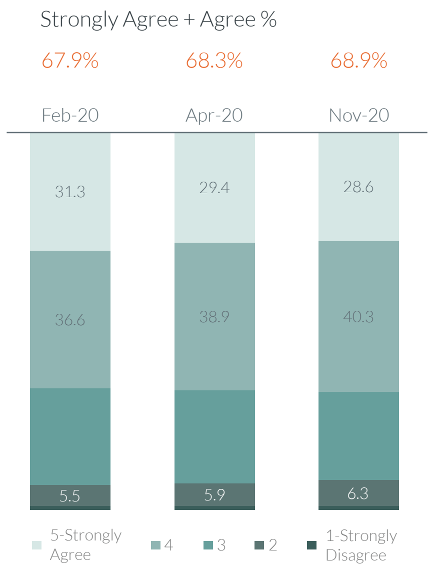
In recent years, domestic manufacturers of home appliances in China have been focusing on improving product quality. Domestic brands have managed to improve their brand reputation through eye catching designs, and a wide range of intelligent and user-friendly functions.

When the country came together to fight the COVID-19 pandemic, the spirit of patriotism reached a new high with consumers showing their support for domestic brands. A GfK study revealed that almost 70% of consumers said they are 'more likely to choose domestic brands, support domestic products, and make a contribution to the country's economy' post pandemic. Among them consumers from first tier cities and Gen Z feel more positively about domestic brands. This presents a great opportunity for local home appliances manufacturers.

'I am more likely to choose domestic brands, support domestic products, and make contributions to the country's economy.'

Supporting domestic brands continue to be the mainstream attitude towards brands. In particular, preference for domestic brands have increased considerably among consumers from first tier cities and Gen Z

Attitude change towards brands due to the pandemic %



Feb-20 N=5000; Apr-20 N=2034; Nov-20 N=2031.
In the past three months, what has changed in regards to your mindset and brand preference under the impact of the pandemic?

Channel reform is imminent

In addition to improving product quality, it is also critical for domestic home appliance brands to develop successful channel strategies and increase touch points with consumers. While the pandemic has disrupted offline channels, it has accelerated consumers' migration to the online markets.
From consumers' perspective, the advantage of shopping online lies in the transparency of information and the variety of options. For the home appliance manufacturers, selling online furthered the reach of their products, and at the same time meet consumer needs of being able to shop without leaving their homes.

However, with shifting channel preferences towards online retail, some of the key challenges faced by retailers today are how to optimize operations and control promotional cost. Manufacturers have been struggling to keep pace with evolving purchase channel behavior during the pandemic and therefore, finding new ways of retail innovation that would improve operational cost as well as efficiency.
In response to this, manufacturers are focusing on driving traffic through live-streaming, direct-sale stores, community sales and mini app cloud stores.
Instead of depending on public domain traffic, manufacturers have started to focus on converting consumers to private domain groups. From a consumer's perspective, this is simply a change of purchase 'venue', but it means much more to manufacturers: the lower cost of private domains, more direct interactions with consumers and the opportunity to increase consumer stickiness to the brand.
The new mindset of channel reform is bringing fresh retail opportunities for the manufacturers.

Appliance upgrading is trending up in China, and this is expected to drive growth of the high-end home appliance market

The pandemic has brought about changes in consumer mindset; creating and driving the demand for high end appliances

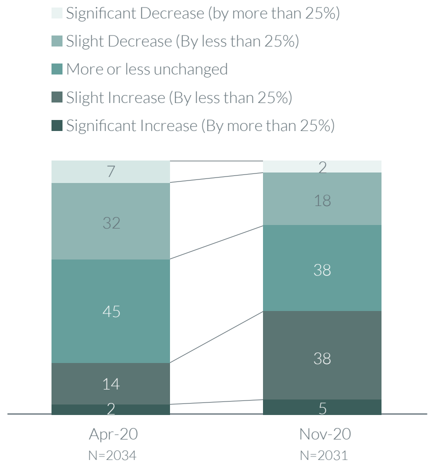
The impact of the pandemic on incomes varied amongst different consumer groups. Although many consumers said there has been a small impact on their incomes, majority said their incomes 'increased slightly' or 'remained unchanged'. This ratio increased considerably compared to a survey conducted by GfK in April 2020. Change in income varied significantly for different household income groups. 'Income decreased' was rated highest amongst the group whose monthly household income was under 12,000RMB; whereas it was rated lowest amongst the group whose monthly household income was over 50,000RMB. Households with lower income face greater challenges during the crisis, while the higher income group are less impacted by the pandemic.

52%
+9% vs. April
'I am going to focus more on spontaneous spend and enjoy the present; no one can predict if an accident would occur tomorrow.'

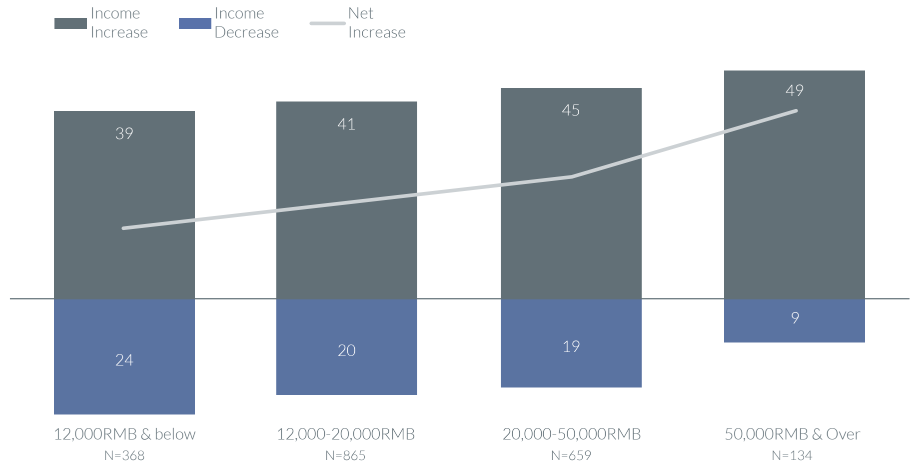
50%
+7% vs. April
'Post pandemic, I am going to spend more to buy what I want, reward myself and enjoy life.'

Most consumers reported that annual household income would either increase or remain unchanged, significantly more positive than the conservative forecast in April, since risk mitigation is harder in lower income families who reported highest percentage of income decrease

2020 forecasted annual household income %



2020 forecasted annual household income % by monthly income



How do you think your 2020 household income will change compared to a year ago?
In the past three months, what has changed in regards to your consumer mindset and brand preference under the impact of the pandemic?

Consumer mindsets are likely to be altered since the outbreak of pandemic. There are two broad groups with opposing attitudes: those who are 'cautious' and those who tend to 'enjoy life'. This is determined by the income changes caused by the pandemic in different income groups. Many of the lower income groups have experienced income decrease and are subsequently more cautious and rational when it comes to spending.

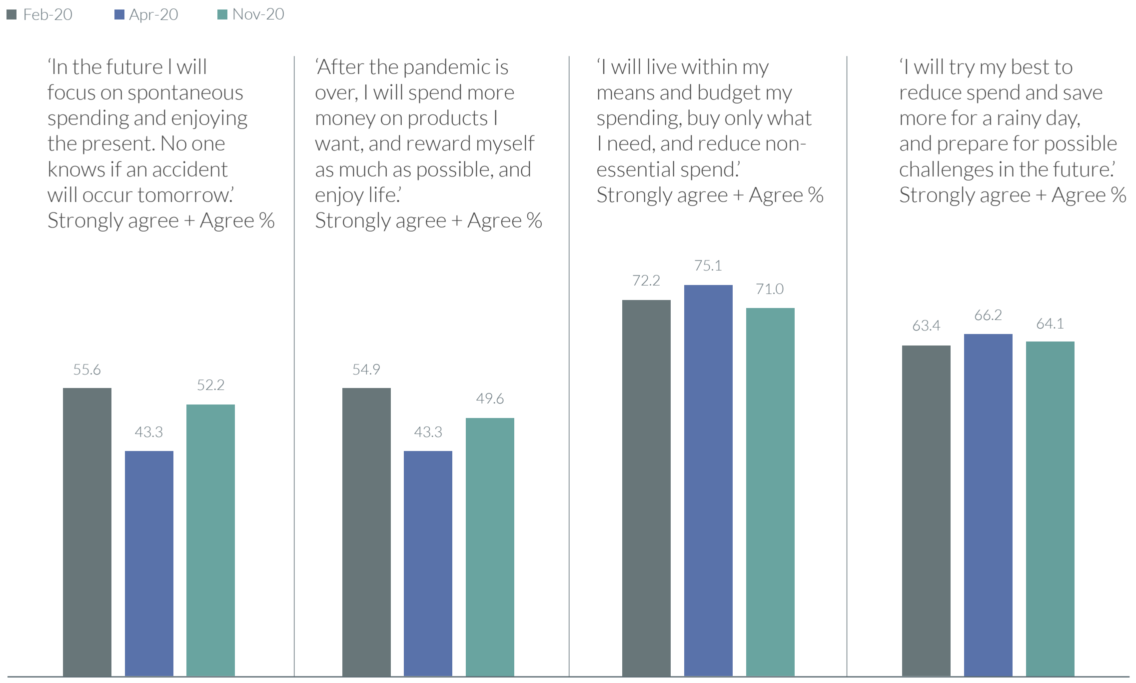
They live within their means and focus only on the necessities. They consider carefully before making a cost decision and cut back on impulsive spending.

On the contrary, higher income group experienced less income loss. Their focus after the struggle of the pandemic is to live a good life, reward themselves, and enjoy the moment. They prefer higher quality products and are spontaneous when it comes to spending.

Approval rates of these two attitudes varied throughout different development stages of the pandemic, but they generally co-exist.

With the rise in consumer confidence, the proportion of consumers who agreed with the 'enjoy life and spend spontaneously' attitude has also increased; while the cautious consumption mentality of 'making ends meet and reduce spending' has declined

Changes in consumer mindset under the pandemic (%)



Feb-20 N=5000; Apr-20 N=2034; Nov-20 N=2031.
In the past three months, what has changed in regards to your consumer mindset and brand preference under the impact of the pandemic?

The contrast between these two mindsets has led to a more polarised consumer market. For the home appliance market, the demand for both cost-effective products and high-end products exist at the same time, and the demand for both types increased considerably since 2019. For example, the refrigerator and washing machine sectors saw a decline in cost-effective products offline, but with the further development of the online market during the pandemic, the market size was still growing.

Many consumers who are price sensitive and less concerned about brands tend to shop online for more cost-effective products. Brand names are playing less critical roles in their decision making, as their brand loyalty is low, and they are open to explore other options.

This trend has been observed overseas as well as in the domestic markets, which is why it would be beneficial for Chinese brands to venture abroad to broaden their market.

Meanwhile, sales of high-end products have increased significantly, driven by those consumers with the 'enjoy life' mindset. High-end has become the driving force of the market growth. During the pandemic, high-end consumption saw a noticeable movement to the online market. The proportion of high-end products in the online market increased significantly.

The offline market recovered rapidly after the pandemic and was under control in the second half of 2020.

Meanwhile, the manufacturers are actively pursuing the high-end segment, introducing new products, and catering specially to their demand, which further fuelled the segment's growth. GfK China Retail Market Monitoring data indicates the high-end growth is not only reflected in refrigerator and washing machine sectors, percentage of sales for TVs and air conditioning units over 10,000RMB, kitchen appliances over 6,000RMB, and vacuum cleaners over 5,000RMB has continued to grow from 2017 to 2020.

Sales for kitchen appliances and small cleaning appliances increased particularly noticeably due to the 'stay at home' culture and health concerns caused by the pandemic.

What features and selling points do high-end consumers value most?

GfK's consumer survey reveal product design and presentation to be greatly valued; followed by new technology as curiosity towards innovative technology is motivating them to purchase high-end appliances. Intelligent, user-friendly, and multiple functions are also the mainstream industry trend and are of particular interest to consumers. Based on findings from GfK's market and consumer insights, four major rising trends have emerged in the high-end appliances market in China. The first trend is the increasing focus on aesthetics; using diversified materials and designs to make products more visually pleasing. Second, form and function innovation, more cross-border integration provides innovative functions or innovative categories, which is an important trend to support the new high-end. The third trend is to focus on core functions and experiences, and core technologies to drive the development of industries and products. The fourth is intelligent interaction. More manufacturers place higher importance on AI technology and consider it as the future development strategy. Intelligent interaction function has become the mainstream in the high-end home appliance market.

Four major trends for the high-end home appliances market

Design

Transformational innovation

Core technology

Intelligent interaction

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